TESTIMONY PRESENTED TO THE FINANCE, REVENUE, AND BONDING COMMITTEE
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Testimony Supporting Senate Bill No. 843

AN ACT CONCERNING REVENUE ITEMS TO IMPLEMENT THE GOVERNOR'S BUDGET

Senator Fonfara, Representative Widlitz and distinguished members of the Finance, Revenue and Bonding Committee, thank you for the opportunity to offer testimony on Senate Bill No. 843, AN ACT CONCERNING REVENUE ITEMS TO IMPLEMENT THE GOVERNOR'S BUDGET.

This bill contains the major revenue elements of Governor Malloy's budget plan. As the state moves into the FY 2014 and FY 2015 biennium, the Governor wants to maintain the substantial progress made in securing a long-term sustainable budget despite the fact that overall economic growth remains at an unacceptably low level. Importantly, this budget contains no new taxes. As a result of the less than robust economic recovery, growth in state revenue remains low, and thus the continuation of current revenue sources is needed to maintain budget balance. Therefore, this bill extends three tax provisions that are currently scheduled to expire. These tax provisions include the 20% corporation tax surcharge, the tax on electric generators, and a reduction in the amount of tax credits that insurance companies can access.

In an effort to reduce the state's high energy costs, the Governor is proposing two new programs that are designed to reduce long-term costs for hundreds of thousands of ratepayers. First, Governor Malloy is proposing to authorize a first-in-the-nation program to convert approximately 800,000 electric ratepayers to an electric rate below the current standard offer. This conversion could save the average ratepayer approximately $65 annually while generating much needed resources to the General Fund by auctioning the right to provide power to those customers currently on the standard offer pricing plan. Second, in recognition of the current favorable pricing for natural gas and its ample supply, the Governor is proposing a $500 incentive payment to customers who currently are near, but unconnected to, main lines to convert to natural gas supplies. Converting to natural gas not only saves customers real dollars on their energy costs, but also has the positive overall environmental impact of being less polluting and promoting American energy independence.

Lastly, Governor Malloy is proposing significant tax relief for residents in the second year of the biennium, including re-implementation of a clothing and footwear exemption under the sales tax. Under this proposal, beginning in FY 2015 articles of clothing and footwear up to $25 in value will be exempt, with the threshold expanded to $50 beginning in FY 2016. In addition, the Governor is proposing an exemption of up to $20,000 of assessed value of motor vehicles from the municipal property tax. Unlike in previous property tax proposals, Governor Malloy is not proposing to reduce or eliminate the state property tax credit.

There are numerous other elements contained in the bill and therefore, the Office of Policy and Management has prepared a detailed fact sheet that accompanies this testimony. Overall, this bill would increase General Fund revenue by $516.3 million in FY 2014 and by $382 million in FY 2015. The net impact on the Transportation Fund revenue is a decrease of $14.8 million in FY 2014 and with a net neutral impact in FY 2015.

I would like to again thank the committee for the opportunity to present this testimony. I respectfully request the Committee's support of this bill.

STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

FACT SHEET

2013 LEGISLATIVE SESSION

SENATE BILL NO. 843 – AN ACT CONCERNING REVENUE ITEMS TO IMPLEMENT THE GOVERNOR'S BUDGET.

SUMMARY OF THE PROPOSAL:

This bill contains the major revenue elements of the Governor's plan to balance the FY 2014 and FY 2015 budgets. General Fund revenue would increase by $516.3 million in FY 2014 and by $382.0 million in FY 2015. Transportation Fund revenue would decrease by $14.8 million in FY 2014 and no net impact in FY 2015.

REASON FOR PROPOSAL:

To raise revenue to support Governor Malloy's proposed biennial budget.

SIGNIFICANT IMPACTS:

Impact of Proposals on State General Fund Revenue

(Millions)

Section	Tax/Provision	FY 2014	FY 2015
1	Tax Amnesty Program	$25.0	$0.0
2	Biomedical Research Trust/Stem Cell Transfer	14.0	14.0
3, 20-35	PILOT	0.0	0.0
4	Insurance Tax Credit Cap	19.0	19.0
5-6	Corporation Tax Surcharge	44.4	74.0
7	Electric Generator	76.0	76.0
8-9,35	Municipal Revenue Sharing Account	92.4	97.9
10	Sales Tax: Clothing and Footwear Exemption	0.0	(55.5)
11	Earned Income Tax Credit	21.1	11.0
12-13	Transfers to Special Transportation Fund	14.8	0.0
14	Urban Renewal Tax Credit	0.0	0.0
15-17	Property Tax Relief: Automobiles	0.0	21.0
18	Natural Gas Conversion	0.0	(5.0)
19	Auction Standard Offer Customers	80.0	0.0
20-21	Mashantucket Pequot and Mohegan Grant	129.6	129.6
	Total General Fund Impact	$516.3	$382.0

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Impact of Proposals on Special Transportation Fund Revenue
(Millions)

Section	Tax/Provision	FY 2014	FY 2015
12-13	Reduce Transfer to Special Transportation Fund	$(172.8)	$(152.3)
12-13	Increase Oil Company Transfer from General Fund	158.0	152.3
	Total Special Transportation Fund Impact	$(14.8)	$0.0

Additional Information:

Section 1: Tax Amnesty Program. This proposal establishes a tax amnesty program in FY 2014 from September 16, 2013 through November 15, 2013. The state anticipates receiving $25 million in additional revenue from this program. The budget provides $1.83 million in funding for the Department of Revenue Services to implement and administer the tax amnesty program.

Section 2: Tobacco Settlement Transfers. This proposal permanently eliminates the $4.0 million transfer from the Tobacco Settlement Fund to the Biomedical Research Fund and diverts it to the General Fund. The bill also permanently eliminates the $10 million transfer from the Tobacco Settlement Fund to the Stem Cell Research Fund and diverts it to the General Fund.

Section 4: Insurance Tax Credit Cap CY 2013 and CY 2014. Connecticut law prevents corporations and insurance companies from eliminating their entire tax liability through tax credits. This proposal will extend the three-tiered tax credit cap currently in place on Connecticut's insurance companies for an additional two years. Typically, the tax credit cap is set at 70%, but was modified to the three-tiered cap detailed below. The insurance tax credit cap was scheduled to expire at the end of 2012. The proposed extension of the tax credit cap on insurance companies will prevent further revenue erosion by limiting the amount an insurance company is allowed to reduce its tax liability.

Credit Cap for Insurance Premiums
Calendar Year 2013-2014

	Maximum Tax Credit Claim	Tax Credit
Type I	55%	Digital Animation Production Companies (CGS 12-217ll)
Type II	70%	Insurance Reinvestment Tax Credit (CGS 38a-88a)
Type III	30%	All Others

Sections 5-6: Corporation Tax. This proposal extends the 20% surcharge on the corporation tax on companies with gross income above $100 million for two years, through December 31, 2015. The corporation tax surcharge was scheduled to expire effective January 1, 2014. The proposed extension of the corporation tax surcharge will prevent further revenue erosion and postpone its elimination until a period of more favorable economic conditions.

Section 7: Electric Generators. This proposal would extend the $0.0025 tax per kilowatt hour on electric generators for an additional two years, through June 30, 2015. The electric generators tax was scheduled to expire at June 30, 2013. The proposed extension of the electric generators surtax will prevent further revenue erosion and postpone its elimination until a period of more favorable economic conditions. The proposal also closes a loophole in the original law by modifying "persons subject to tax" to also include those entities that only provide electric generation services.

Sections 8-9, 35: Municipal Revenue Sharing Account. This proposal ends the diversion of a portion of sales tax collections and a portion of the real estate conveyance tax from the General Fund to a separate municipal revenue sharing account. This will increase General Fund revenues by $92.4 million in FY 2014 and $97.9 million in FY 2015 and not harm municipalities. Though every municipality may not get the same amount of funding from the same source, municipalities will not receive less funding than they did the previous year through modifications proposed in the appropriations and capital portion of the budget.

Eliminate Transfer to Municipal Revenue Sharing Account
(millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Sales and Use Tax	$52.9	$56.9	$59.3	$61.7	$64.7
Real Estate Conveyance Tax	39.5	41.0	42.9	44.9	46.9
Total	$92.4	$97.9	$102.2	$106.6	$111.6

Section 10: Sales Tax Clothing and Footwear Exemption. This proposal exempts clothing and footwear less than $25 in value from the sales and use tax in FY 2015 saving tax payers an estimated $55.5 million. In FY 2016 and beyond clothing and footwear less than $50 in value will be exempt from the sales and use tax, saving tax payers $143.3 million. This will make Connecticut retailers more competitive with those in surrounding states.

Clothing Exemption
Compared to Neighboring States

State	Exemption Amount	Sales Tax Rate
Connecticut (proposed)	$25/$50	6.35%
Massachusetts	$175	6.25%
New York	$110	7.0%
Rhode Island	$250	7.0%

Section 11: Earned Income Tax Credit. This proposal would reduce Connecticut's earned income tax credit to 25% in income year 2013 and 27.5% in income year 2014. The earned income tax credit is a refundable tax credit for low income residents, primarily for those who have qualifying children. Connecticut's current earned income tax credit of 30% is one of the highest in the nation.

Earned Income Tax Credit

State	Percent of Federal EITC	Refundable
Connecticut	**25/27.5%**	**Yes**
Rhode Island	25%	Partially
Massachusetts	15%	Yes
New York	30%	Yes
New Jersey	20%	Yes

Sections 12-13: Transfers to Special Transportation Fund. This proposal would increase the oil companies' tax transfer to the Special Transportation Fund and decrease the General Fund transfer to the Special Transportation Fund. This would ensure that all gasoline related revenue goes to the Special Transportation Fund. The net impact of the countervailing transfers is small in FY 2014 and 2015, though the net transfer to the Special Transportation Fund increases thereafter.

General Fund Impact
(millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Increase Oil Company Transfer to STF	$(158.0)	$(152.3)	$(145.9)	$(145.9)	$(145.9)
Reduce GF Transfer to STF	172.8	152.3	20.0	10.0	10.0
Net General Fund Impact	$14.8	$0.0	$(125.9)	$(135.9)	$(135.9)

Section 14: Urban and Industrial Site Reinvestment Tax Credit. This proposal would increase the lifetime cap on the tax credit for the urban and industrial site reinvestment program from $650 million to $800 million. Given the structure of the tax credit, no fiscal impact would occur over the biennium.

Sections 15-17: Property Tax Relief: Automobiles. This proposal would exempt automobiles with an assessed value of less than $20,000 from local property taxes. This equates to an appraised value of $28,571. This would include all commercial motor vehicles with the exception of rental vehicles. This proposal would be a local option effective July 1, 2013 based upon the October 1, 2012 grand list. The program would become mandatory July 1, 2014 based upon the October 1, 2013 grand list. To ease implementation, the proposal allows municipalities scheduled to conduct a revaluation on the October 1, 2014 or the October 1, 2015 grand lists to advance conducting their revaluations to the October 1, 2013 grand list, without adjusting their statutory schedule. Given the $20,000 exemption provided to all vehicles, the proposal would eliminate the existing $500 maximum assessment on any antique, rare, or special interest motor vehicle. The estimated value of motor vehicle taxes is approximately $625 million annually.

Section 18: Natural Gas Conversion. This proposal would provide an incentive to convert energy consumers to natural gas. The program would offer a $500 incentive to consumers who are currently near but unconnected to main lines to convert to natural gas. The payment would be credited through their monthly bill and gas companies would then receive a tax credit on their public utilities tax. The tax credit would be capped at $5 million a year. To take advantage of this program, consumers would have to sign up between July 1, 2013 and January 1, 2014. The transition to natural gas will aid Connecticut residents by taking advantage of the favorable price in natural gas as well as its forecast abundant future supply. Converting to natural gas not only saves Connecticut residents energy costs, but also has less environmental impact and promotes American energy independence.

Section 19: Savings for Energy Consumers. This proposal would authorize a first-in-the-nation program to convert 800,000 electric ratepayers to an electric rate at least 5% below their current standard offer price plan. The conversion would happen under a competitive bid. Electric generation suppliers will bid on the ability to service those ratepayers who are still on the standard offer. By setting a rate 5% lower than the standard offer rate, this conversion could save the average rate payer an estimated $65. It would also generate a one-time payment to the General Fund estimated to be $80 million by auctioning the right to provide electric service to consumers currently on the standard offer price plan.

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Sections 20-21: Mashantucket Pequot and Mohegan Grant. This proposal suspends the grant for FY 14 and FY 15, and continues payments of $5.35 million to the five host towns near the state's two casinos, and the towns that are members of certain councils of local government. It should be noted, that SB 842, increases each municipalities Local Capital Improvement (LoCIP) grant by $56.42 million in both FY 14 and FY 15, based on the FY 13 allocation of the Mashantucket Pequot and Mohegan grant.

Sections 3, 22-35: Repeals the payment in lieu of taxes for state owned property. The Governors' recommended budget eliminates funding for this program, and instead municipalities will receive the same amount as they did in FY 2013 through the Education Cost Sharing grant. The four municipalities that contain Bradley International airport property will continue to receive funding equal to twenty percent of the tax loss from the Bradley Enterprise fund.